

## Message Text

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ACTION SP-02

INFO OCT-01 ARA-14 ISO-00 AID-05 TRSE-00 EB-08 SS-15  
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FM AMEMBASSY BRASILIA  
TO SECSTATE WASHDC PRIORITY 5744

UNCLAS SECTION 1 OF 2 BRASILIA 0563

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TAGS: ECON, BR, IN, ID, PK, RP, ES, BG, GR, BL, GT, TZ, ET, CM, EAID  
SUBJECT: ASSESSMENT OF EFFECTIVENESS OF ECONOMIC ASSISTANCE; BRAZIL;  
INEFFECTIVE PROJECTS

REF: A) BRASILIA 531, B) BRASILIA 450, C) BRASILIA 413  
D) BRASILIA 393, E) BRASILIA 380, F) 77 STATE 306064

1. THIS IS THE SIXTH IN A SERIES OF MESSAGES ON THE  
ASSESSMENT OF THE ECONOMIC ASSISTANCE TO BRAZIL. THIS  
TELEGRAM CARRIES DESCRIPTIONS OF INEFFECTIVE PROJECTS  
REQUESTED IN REF F.

2. LOAN 512-G-071 - MOGIANA AGRICULTURAL DIVERSIFICATION  
PROGRAM

A. THIS LOAN WAS AUTHORIZED ON AUGUST 24, 1967, IN  
THE AMOUNT OF 9.0 MILLION U.S.-OWNED CRUZEIROS ORIGINATING  
FROM PL-480 SALES. THE PURPOSE WAS TO ASSIST THE MOGIANA  
REGIONAL DEVELOPMENT PROGRAM FOR AGRICULTURAL DEVERIFICATION  
THROUGH TH FINANCING OF GOODS AND SERVICES RELATED TO THE  
ESTABLISHMENT OF FARM SERVICE CENTERS WHICH WOULD HAVE  
GRAIN RECEIVING AND PROCESSING EQUIPMENT, WAREHOUSE, FARM  
SUPPLY AND EQUIPMENT SERVICE FACILITIES, SILOS AND  
OTHER SERVICE FACILITIES. THE TARGET GROUP WAS  
APPROXIMATELY 1656 SMALL AND MEDIUM FARMERS WHO WERE  
MEMBERS OF 19 LOCAL COOPERATIVES ASSOCIATED WITH THE  
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MOGIANA CENTRAL COOPERATICA OF COFFEE-GROWERS (CCCM),  
AN ORGANIZATIONAL WHICH COVERED AN AREA OF 116,000  
SQUARE KILOMETERS IN THE STATES SAO PAULO AND MINAS  
GERAIS. THE LOAN, WHICH WAS TO BE THE FIRST STAGE OF  
THE OVERALL DEVELOPMENT PROJECT, COVERED TWO OF THE 19  
COOPERATIVE SERVING AREAS.

B. THE PURPOSE OF THE LOAN WAS NOT ACHIEVED.

THREE YEARS AFTER THE SIGNING OF THE LOAN, CCCM STILL HAD NOT SATISFIED CONDITIONS PRECEDENT TO DISBURSEMENT FOR CONSTRUCTION OF LOAN-FINANCED FACILITIES. OVER THE THREE YEAR PERIOD, CONSTRUCTION COSTS HAD SKYROCKETED DUE TO INFLATION. CCCM WAS UNABLE TO FURNISH EVIDENCE OF THE FINANCIAL ABILITY OF MEMBER COOPERATIVES TO MEET THE INCREASED CONSTRUCTION REQUIREMENTS AND IT APPEARED THAT AID FUNDS MIGHT BE INSUFFICIENT, BECAUSE OF DEVALUATION AND INCREASED COSTS, TO MEET USAID'S SHARE OF THE PROJECT COSTS AS SHOWN IN THE LOAN PLAN. IN NOVEMBER 1970, THEREFORE, USAID ADVISED THE MINISTRY OF FINANCE THAT THE PROJECT WAS NO LONGER FEASIBLE AND THAT REPAYMENT GUARANTEE WOULD BE INVOKED. THE MINISTRY CONCURRED AND, AFTER HAVING DETERMINED THAT CCCM WAS UNABLE TO DO SO, REFUNDED TO AID THE MONIES THAT HAD BEEN DISBURSED TO COVER ENGINEERING DESIGN SERVICES.

C. THE PRINCIPAL PROBLEM WITH THIS PROJECT SEEMS TO HAVE BEEN THAT IT WAS BEYOND CCCM'S CAPACITY TO ADMINISTER THE MANY TECHNICAL AND FINANCIAL ASPECTS OF ENGINEERING DESIGN AND CONSTRUCTION CONTRACTS. CCCM'S PROJECT PERSONNEL WORKED ONLY PART TIME ON THE PROJECT AS THEY HAD ALSO TO RUN CCCM'S DAILY AFFAIRS. ADDITIONAL DETAILS CAN BE FOUND IN THE LOAN COMPLETION REVIEW AND REPORT DATED NOVEMBER 1, 1972.

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### 3. CAPITAL MARKETS DEVELOPMENT FUND, 512-L-086

A. THE PURPOSE OF THIS LOAN OF \$15.0 MILLION WAS TO ASSIST THE CENTRAL BANK OF BRAZIL IN ESTABLISHING A CAPITAL MARKET DEVELOPMENT FUND FOR SUB-LOANS TO ACREDITED FINANCIAL INSTITUTIONS IN THE MAKING OF FIRM-OFFER UNDERWRITINGS OF CORPORATE SECURITY OFFERINGS. THE PROJECT AROSE OUT OF AN EARLY 1970'S PRESIDENTIAL INITIATIVE TO ASSIST LDC'S IN THE DEVELOPMENT OF THEIR CAPITAL MARKETS. THE UNDERLYING RATIONALE WAS THAT PRIVATE ENTERPRISE COULD FINANCE ITS INVESTMENT NEEDS THROUGH THE DEMOCRATIZATION OF CAPITAL. THE LOAN HAD TWO ELEMENTS: \$12.5 MILLION FOR THE FUND AND \$2.5 MILLION FOR TECHNICAL ASSIGNMENT AND TRAINING. THE INTER-

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NATIONAL FINANCE CORPORATION HAD A COMPANION LOAN  
OF \$5.0 MILLION, ALSO WITH THE CENTRAL BANK.

B. ALTHOUGH THE TECHNICAL ASSISTANCE PORTION  
OF THE LOAN HAD A DGREE OF SUCCESS, THE UNDERWITING  
ELEMENT - AND CONSEQUENTLY THE PRINCIPAL PURPOSE OF  
THE PROJECT - HAS TO BE CONSIDERED A FAILURE. THE  
LOAN PROGRAM WAS FORMULATED AT A TIME WHEN THE RIO  
AND SAO PAULO STOCK MARCKETS WERE BOOMING AND MARKET  
ACTIVITY WAS AT ITS HIGHEST IN HISTORY. THE LOAN'S  
CAPITAL ASSISTANCE PAPER REFLECTED THIS BOOM IN  
ITS PROJECTIONS OF 126 UNDERWRITINGS IN THE VALUE  
OF \$695.8 MILLION TO BE FINANCED OVER A PERIOD OF  
FOUR YEARS. AFTER THE LOAN'S SIGNING, STOCK MARKET  
PRICES, DUE MAINLY TO OVERSPECULATION, WENT INTO A  
STEEP AND ABRUPT FALL CAUSING HEAVY LOSSES TO  
INVESTORS AND RESULTING IN GENERAL LACK OF PUBLIC  
CONFIDENCE IN THE MARKET. THIS, PLUS SEVERAL PROBLEMS  
WITH THE FUND MANAGEMENT AND OPERATIONAL PROCEDURES OF  
THE CENTRAL BABK RESULTED IN THREE BEING ONLY TWO  
UNDERWRITING IN THE TOTAL AMOUNT OF \$4 MILLION  
BEING FUNDED UNDER THE PROGRAM.

C. IN EARLY 1976, THE CENTRAL BANK AGREED  
TO A PROGRESSIVE DEOBLIGATION SCHEME FOR LOAN FUNDS  
NOT DISBURSED AS OR THE END OF EACH QUARTER REMAINING  
TO THE LOAN'S TERMINAL DISBURSEMENT DATE.  
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APPROXIMATELY \$11.5 MILLION DOLLARS WAS SUBSEQUENTLY DEOBLIGATED OVER THE REMAINING LIFE OF THE LOAN WHICH TERMINATED ON JUNE 30, 1977.

4. RURAL REHABILITATION AND REFORM; 512-11-130-249.4

A. (FILES ON THIS PROJECT HAVE BEEN RETIRED. THE BEST SUMMARY OF THE PROJECT IS CONTAINED IN A RECIFE AID AIRGRAM SENT IN JULY 1972; WE DO NOT HAVE A RECORD OF THE AIRGRAM NUMBER.) THE OBJECTIVE OF THIS GRANT PROJECT WAS TO IMPROVE THE QUALITY OF RURAL LIFE IN BRAZIL'S POLITICALLY-TROUBLED NORTHEAST SUGAR ZONE THROUGH AN INTEGRATED PROGRAM OF MODERNIZATION OF THE NE SUGAR AGRO-INDUSTRY, AGRICULTURAL DIVERSIFICATION, AND LAND REFORM. SUGAR INDUSTRIALISTS AND CANE PLANTERS WERE TO RECEIVE SPECIAL CREDITS FOR MODERNIZATION AND AGRICULTURAL DIVERSIFICATION IF THEY WOULD ALLOW SOME OF THEIR LANDS TO BE EXPROPRIATED - WITH SOMPENSATION - AND DISTRIBUTED TO THE WORKERS TO BE RELEASED THROUGH THE MODERNIZATION PROCESS. THIS THREE-FOLD PROCESS WAS TO BE CARRIED OUT THROUGH THE EXECUTIVE GROUP FOR NORTHEAST AGRARIAN REFORM, GERAN, CREATED BY THE FEDERAL GOVERNMENT AS A REGIONAL DEVELOPMENT AGENCY IN 1965.

B. BECAUSE OF INSTITUTIONAL PROBLEMS, GERAN ONLY BECAME REASONABLY WELL-ESTABLISHED IN LATE 1968. AID ASSISTANCE TRIED TO FOCUS ON THE INSTITUTION-BUILDING ASPECTS OF SUGAR-ZONE REFORM BY ASSISTING GERAN WITH ITS PLANNING, ANALYSIS, IMPLEMENTATION AND MANAGEMENT RULES AND AT ONE TIME HAD SIX TECHNICIANS IN GERAN HEADQUARTERS. GERAN'S FIRST ENTEGRAED REFORM PROJECT WAS APPROVED IN 1970 AND WAS BEING IMPLEMENTED AT THE SAME TIME THAT THE FEDERAL GOVERNMENT WAS REFORMULATING ITS POLICIES ON UNCLASSIFIED

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RURAL DEVELOPMENT, AGRARIAN REFORM AND COLONIZATION. AS A RESULT OF THE REFORMULATION, LAND REFORM WAS DE-EMPHASIZED IN FAVOR OF COLONIZATION AND GERAN WAS SUDDENLY ABOLISHED IN NOVEMBER 1971. AT THE TIME, GERAN HAD SOME TWENTY PROJECTS UNDER STUDY BUT ALL WENT BY THE BOARDS WITH GERAN'S DEMISE.

C. THIS PROJECT AND THE DEVELOPMENT EFFORT IT SUPPORTED WERE VICTIMS OF TROUBLED POLITICAL TIMES IN BRAZIL. SHORTLY AFTER GERAN'S REVITALIZATION IN LATE 1968, THREE OCCURED A SERIES OF PROCESSES (INCLUDING INSTITUTIONAL ACT NO. 5) RESULTING IN THE CONSOLIDATION OF POWER AND DECISION-MAKING IN THE CENTRAL GOVERNMENT; AMONG THE CONSEQUENCES WAS A LOSS OF AUTONOMY IN THE

REGIONAL DEVELOPMENT AGENCIES AND THE SUBJECTION OF  
THEIR ACTIVITIES TO NATIONAL POLICIES - UNDER WHICH  
LAND REFORM WAS ONLY OF MINOR INTEREST. GERAN ITSELF  
LACKED A SOLID INSTIONAL BASE AS IT HAD TO DEPEND  
ON REPASSES FROM OTHER FEDERAL AND REGIONAL  
AGENCIES FOR ITS BUDGETARY NEEDS AND ITS  
EXPROPRIATION DECISIONS HAD TO BE CARRIED OUT BY  
YET ANOTHER FEDERAL AGENCY. THE COMBINATION  
OF INSTITUTIONAL WEAKNESS AND LACK OF POLITICAL  
WILL FOR LAND REFORM WAS BEYOND AID'S POWERS TO  
OVERCOME.  
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## Message Attributes

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